

Eyeopener

How high did inflation go?

Today inflation in Poland and in the euro zone, detailed 1Q22 GDP data
National Bank of Hungary deciding on interest rates
EURPLN slightly higher ahead of CPI
Market expectations for rate hikes in Poland going up

Today important data in Poland: **flash CPI inflation** for May and **detailed GDP data** for 1Q22. Our CPI forecast is 14% y/y with core inflation rise to 8.2% y/y. In our view, the strong GDP growth of 8.5% y/y in Q1 was largely driven by strong private consumption (up by almost 10% y/y). Investments will look weaker - we expect negative y/y growth, but this is mainly due to the high base effect, while the underlying trends will show a further recovery of corporate investment (a rise in q/q s.a. terms). Also today, **HICP inflation in the euro zone** will be released. It is likely to beat forecasts - yesterday inflation in Spain and Germany surprised to the upside. The data will be consistent with the hawkish rhetoric regarding the need to end quickly the negative deposit rates. Today in the morning **PMI in China** surprised up in both manufacturing and services.

ESI business climate indicator for Poland fell in May from 98.6pts to 97.8pts, its lowest level in a year. As compared to April, only in services some improvement was recorded (especially the assessment of business development in the last months and expected employment change). In manufacturing the current production assessment was worse. Consumers lost appetite for big spending (the index fell below its lows recorded during the global financial crisis 2009 and the slowdown 2012, but not as low as at the start of Covid-19 pandemic). Price expectations slightly fell in industry and construction while increased in retail trade and services.

Moody's assessed in its report that the amendment by Polish Sejm to the Supreme Court law that abolishes the Disciplinary Chamber is positive for the country's credit profile, because it paves the way for recovery plan approval and the disbursement of EU funds.

At the EU summit there was a decision to sanction Russia by **putting a ban on oil imports from Russia except deliveries via pipeline**. The proposal is a compromise as some countries, incl. Hungary, were against total embargo. The deal includes remarks on Ukraine reconstruction that the EU and its member states are ready to lead the process. The support from the EU will be conditional on introduction of reforms in line with the European path.

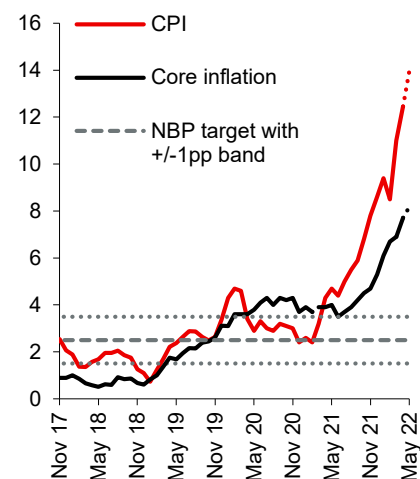
EURUSD continued to rise towards 1.08. Higher-than-expected inflation data from Spain and Germany added to the market conviction about a growing inflationary pressure in the euro zone. Today HICP reading for the whole euro zone which can additionally strengthen the expectations for a quick tightening of monetary policy in the euro zone.

EURPLN rose to 4.58 from 4.56 ahead of the today's CPI print. With market consensus divided about how high inflation rose in May some investors has likely chosen to take profit after three weeks of PLN appreciation and wait for the data with limited exposure.

Other CEE currencies: On Monday EURHUF remained stable, close to 394. The chance for a compromise concerning sanctions on Russian oil have stopped further depreciation of the forint. Today the exchange rate will be waiting for the MNB decision on rates. The market expects "levelling" rate hike by 60bp. If the hike will not beat the expectations it will be considered a proof of a slower pace of monetary policy tightening which should limit the perspectives of the forint appreciation. EURCZK fluctuated slightly above 24.70. The exchange rate remains stable in expectations for the president Milos Zeman's three new nominations to the CNB board. Market hopes that the new nominees will balance the strongly dovish attitude of Ales Michl, which will take over the position as the governor in July.

Debt Market: IRS curve rose on Monday. Domestic yields after an attempt to attack higher levels (10 year yields tried to test 6.86%), at the end of a day closed slightly lower than last week (around 6.60%). Uncertainty concerning CPI reading for May led to higher volatility on the back of the clash of two contradictory views: worries concerning global economic slowdown and increasing inflationary pressure in Poland. Today's inflation reading will probably set the market direction in coming days. In the euro zone yields rose under the influence of predicted faster monetary policy normalisation. The higher-than-expected Spanish and German inflation readings fit in this scenario. In the US situation remained stable due to Memorial Day.

Polish inflation, % y/y



Source: GUS, NBP, Santander

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FX market

Today's opening

EURPLN	4.5815	CZKPLN	0.1851
USDPLN	4.2648	HUFPLN*	1.1578
EURUSD	1.0740	RUBPLN	0.0697
CHFPLN	4.4421	NOKPLN	0.4521
GBPPLN	5.3720	DKKPLN	0.6156
USDCNY	6.6514	SEKPLN	0.4350

*for 100HUF

Last session in the FX market 30/05/2022

	min	max	open	close	fixing
EURPLN	4.558	4.588	4.566	4.585	4.587
USDPLN	4.235	4.267	4.245	4.254	4.262
EURUSD	1.074	1.078	1.076	1.078	-

Interest rate market 30/05/2022

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
DS1023 (2Y)	6.51	8
DS0726 (5Y)	6.89	-4
DS0432 (10Y)	6.62	-9

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	7.65	1	2.57	6	0.44	3
2L	7.40	2	2.89	10	1.01	8
3L	7.07	2	2.90	9	1.22	8
4L	6.81	2	2.77	0	1.35	8
5L	6.63	3	2.77	1	1.44	8
8L	6.35	4	2.77	0	1.65	6
10L	6.27	3	2.80	0	1.77	6

WIBOR rates

Term	%	Change (bps)
O/N	5.43	33
T/N	5.29	-4
SW	5.42	2
2W	5.62	5
1M	5.84	1
3M	6.56	2
6M	6.77	1
1Y	6.86	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	7.09	-2
3x6	7.63	1
6x9	7.80	-1
9x12	7.77	0
3x9	7.82	-1
6x12	7.96	2

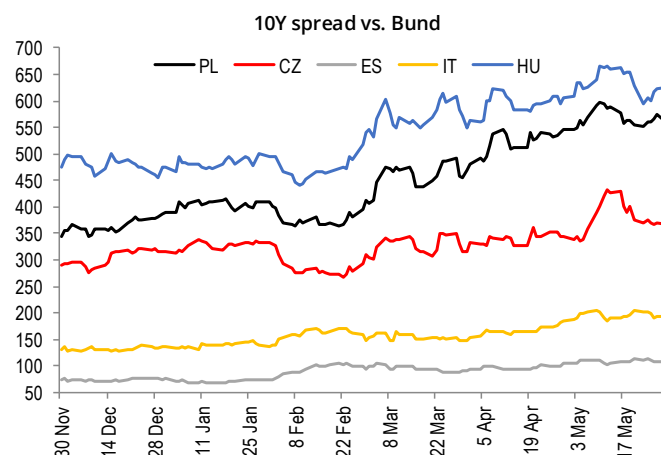
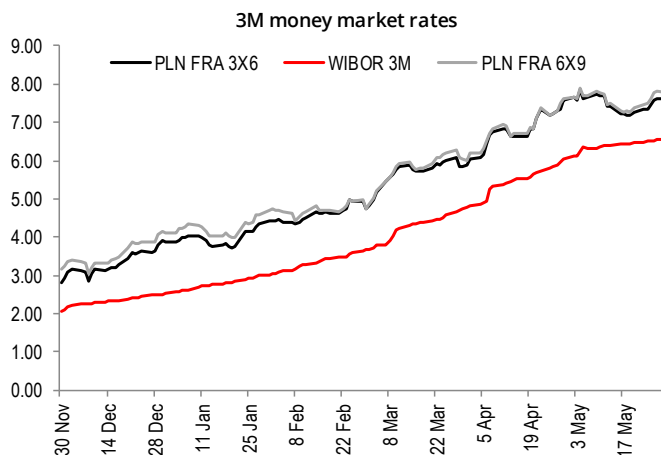
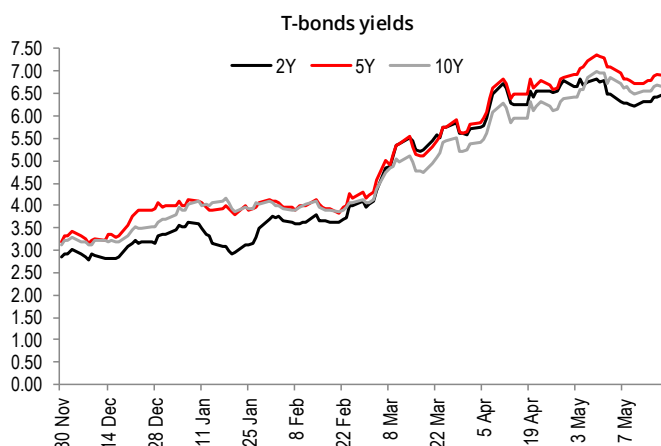
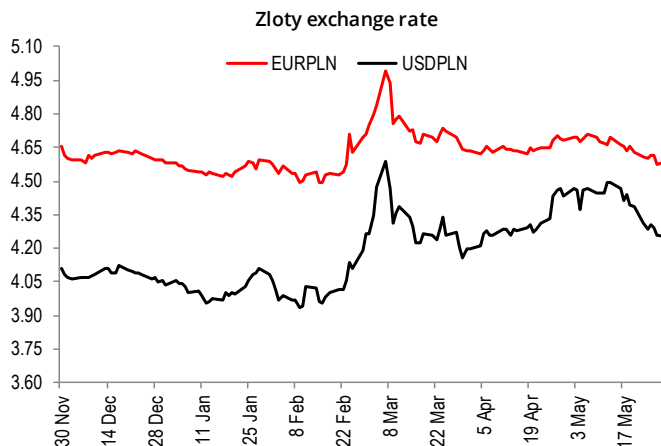
Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	110	-6	557	-17
France	10	0	51	-2
Hungary	125	-7	626	4
Spain	52	0	107	0
Italy	60	0	194	1
Portugal	42	0	113	0
Ireland	13	0	59	-1
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

**Information shows bid levels on the interbank market at the end of the trading day

Source: Refinitiv, Datastream



Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (27 V)								
14:30	US	Personal Spending	IV	% m/m	0.6	-	0.9	1.4
14:30	US	Personal Income	IV	% m/m	0.5	-	0.4	0.5
14:30	US	PCE Deflator SA	IV	% m/m	0.2	-	0.2	0.9
16:00	US	Michigan index	V	pts	59.1	-	58.4	59.1
MONDAY (30 V)								
11:00	EZ	ESI	V	pts	104.9	-	105.0	104.9
14:00	DE	Flash HICP inflation	V	% m/m	0.5	-	1.1	0.7
TUESDAY (31 V)								
09:00	CZ	Flash GDP	1Q	% y/y	4.6	-	-	4.6
10:00	PL	Flash CPI	V	% y/y	13.5	14.0	-	12.4
10:00	PL	GDP	1Q	% y/y	8.5	8.5	-	7.6
11:00	EZ	Flash HICP inflation	V	% y/y	7.7	-	-	7.5
14:00	HU	NBH Policy rate		%		5.9	-	5.4
16:00	US	Consumer confidence	V	pts	103.9	-	-	107.3
WEDNESDAY (1 Jun)								
09:00	PL	Manufacturing PMI	V	pts	52.3	51.9	-	52.4
09:00	HU	GDP	1Q	% y/y	8.2	-	-	7.1
09:55	DE	Manufacturing PMI	V	pts	54.0	-	-	54.6
10:00	EZ	Manufacturing PMI	V	pts	54.7	-	-	55.5
11:00	EZ	Unemployment rate	IV	%	-	-	-	6.8
16:00	US	ISM Manufacturing	V	pts	55.0	-	-	55.4
THURSDAY (2 Jun)								
14:15	US	ADP Employment change	V	k	302.0	-	-	247.0
14:30	US	Initial Jobless Claims	1Q	k	215.0	-	-	210.0
16:00	US	Durable goods orders	V	% m/m	-	-	-	0.4
16:00	US	Factory orders	V	% m/m	0.8	-	-	1.8
FRIDAY (3 Jun)								
08:00	DE	Export	IV	% m/m	-	-	-	-3.0
09:55	DE	Services PMI	V	pts	57.1	-	-	57.6
10:00	EZ	Services PMI	V	pts	57.4	-	-	57.7
11:00	EZ	Retail sales	IV	% m/m	-	-	-	-0.4
14:30	US	Non-farm payrolls	V	k	-	-	-	428.0
14:30	US	Unemployment rate	V	pts	3.5	-	-	3.6
16:00	US	ISM Services	V	pts	-	-	-	57.1

Source: Santander Bank Polska, Bloomberg, Parkiet
* in the case of a revision the data is updated

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